This PDF is a selection from a published volume from the National Bureau of Economic Research

Volume Title: The Economic Consequences of Demographic Change in East Asia, NBER-EASE Volume 19

Volume Author/Editor: Takatoshi Ito and Andrew Rose, editors

Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-38685-6
ISBN13: 978-0-226-38685-0

Volume URL: http://www.nber.org/books/ito_08-2

Conference Date: June 19-21, 2008

Publication Date: August 2010

Chapter Title: Comment on "Labor-Force Participation of Older Males in Korea: 1955 to 2005"

Chapter Authors: Kyungsoo Choi

Chapter URL: http://www.nber.org/chapters/c8173

Chapter pages in book: (313 - 315)

Sung, J.-M. and J.-Y. Ahn. 2006. Determining factors of older workers' employment. *Labor Policy Research* 6 (1): 39–74.
Yoon, S. 1984. Changes in the rural society caused by the migration of labor. PhD dissertation. Department of Sociology, Seoul National University (in Korean).

Comment

Kyungsoo Choi

Korea's elderly labor force participation rate (LFPR) is exceptionally high in comparison with other countries. As of 2002, Korea's male LFPR of sixty to sixty-four years old is 66.5 percent, while in most European countries the rate stands at below 40 percent, and in other Asian countries and in the United States the rates are around 50 to 60 percent.[1] The high participation rate did not decline despite the worldwide early retirement trend observed in most advanced economies since the 1960s. In European countries Gruber and Wise (1999) analyzed that the social security system, specifically the public pension system, is the main reason for the LFPR drop and for the United States, Burtless and Quinn (2000) claimed that the wealth accumulation, which made early retirement affordable for the elderly, was the dominant source. However, as shown by tables 8.1 and 8.2 in the text, the elderly LFPR (among males aged sixty to sixty-four) in Korea did not drop since the 1960s, despite the wealth accumulation created by the rapid economic growth. In rural areas it actually increased, and in urban areas, it remained roughly constant (see figure 8.3).

The reason for such uniqueness of the Korean elderly LFPR has not been well-known nor thoroughly investigated. Roughly it has been claimed that not enough wealth accumulation and insufficient provisions for old-age income security may be the causes for the lengthened labor participation among the Korean elderly. This chapter looks into this unique phenomenon of Korea, using rich sets of data both from the Census and monthly labor market survey data sets. The author finds that up to the 1990s, the LFPR of the elderly remained roughly constant in urban areas, whereas it rose in the rural area due to reduced share of rural population among the elderly, offsetting the LFPR drop. The large share of rural population among the elderly in Korea is obviously an important factor of the high elderly LFPR. Among sixty-five to sixty-nine-year-olds, rural LFPR rose from around

Kyungsoo Choi is a senior fellow at the Korea Development Institute.

1. The LFPR among men aged sixty to sixty-four in various countries are as follows (in percent): Japan 71.2, Korea 66.5, New Zealand 66.1, Sweden 60.1, United States 57.6, Canada 50.9, United Kingdom 50.8, Singapore 49.6, Australia 47.0, Thailand 46.8, Hong Kong 46.1, Russia 39.1, European Union 35.3, Germany 34.0, Italy 30.9, France 17.3 (http://www.jil.go.jp/kokunai/statistics/databook).

0.5 to 0.7 and among those aged seventy and more, it rose from 0.3 to 0.5 (table 8.2). The chapter points to the shortage of labor in the rural area due to emigration during the industrialization, deficient wealth accumulation caused by stagnant real estate price of farmland, and—although not fully supported by data—health improvement in the rural area as causes of the rise of LFPR among the rural elderly. This chapter considers a variety of candidate causes for LFPR rise and evaluates their importance from empirical data, comparing the Korean situation with that of the United States in the past. Further, the author provides a very kind and detailed description of changes that occurred in the rural area, which will be greatly helpful for foreigners in understanding the Korean situation. I agree with the author's view on the causes of LFPR in the rural area. Later studies may find the relative importance of the causes somewhat different; for example, they could find health improvement or technology change more important than evaluated in this chapter, but I expect that the empirical results given in this chapter would be maintained.

But then another obvious question is, "Why did the urban elderly men's LFPR not drop?" Among elderly men, the urban population is now more than 50 percent, and the fact that urban elderly male LFPR did not drop is as interesting a question as the rise of rural elderly male LFPR.[2] Needless to say, high urban LFPR need also be analyzed to explain the overall high LFPR. Rising rural LFPR prevented the elderly male LFPR from dropping by offsetting the fall caused by shrinking rural population share. But the high and persistent urban LFPR contributed as much to the persistent high level of elderly male LFPR of Korea.

In advanced economies the elderly LFPR continued to drop until the 1980s. Even in Japan, where the elderly LFPR is at roughly the same level as Korea, the rate dropped with the decline of self-employment in urban areas up to the 1980s. Unlike advanced countries, Korea did not have a mature pension system, public or private, and the social security system did not provide incentives for early retirement. But the wealth has increased a lot, education level has upgraded, and self-employment share dropped among the elderly in urban Korea. Education could have acted toward increasing the old-age labor participation, but urban income has greatly increased (table 8.7), and urban real estate prices soared at least several times in real terms during the last fifty years. The effects of land price rise on the elderly LPFR have been small in urban areas. The author estimates (in footnote 16) that the 1 percent rise of land prices has lowered urban elderly male LFPR by 0.1 percent, which is a quarter of the effect in rural areas. But the effect of income still remains to be explained.

2. Specifically, the urban population share is 65.9 percent among age sixty to sixty-four, 56.2 percent among age sixty-five to sixty-nine, and 49.3 percent among seventy and over (see table 8.2).

A very feasible cause for high participation is the large share of self-employment in the urban area, especially among the elderly, which is very high in Korea. Its employment share is 29.8 percent among men and 43.6 percent among men aged sixty to sixty-four. And the elderly self-employment does not show a long-term downward trend. Self-employment in the urban area acts like a bridge between employment and retirement in the Korean labor market. I think the self-employment structure in the urban sector of Korea needs to be analyzed to answer the question, "Why is the LFPR of older males so high in Korea?"

References

Burtless, G., and J. F. Quinn. 2000. Retirement trends and policies to encourage work among older Americans. Boston College Working Papers in Economics. Available at: http://scholarhip.bc.edu/econ_papers/175.

Gruber J., and D. A. Wise. 1999. *Social security and retirement around the World.* Chicago: University of Chicago Press.

Comment Fumio Ohtake

The purposes of Lee's study were twofold: (a) to analyze the long-term trend in the labor force participation rate (LFPR) of older males in Korea, and (b) to examine the determinants of the labor force participation of the elderly through regression analysis of Census data. In his research conducted toward the first objective, the author used the following two data sources: the Population and Housing Census (Census) and the Economically Active Population Survey (EAP). He especially concentrated on the differences of the LFPR between rural and urban older males. The key variables in his analysis toward the second objective were family size and the percentage of males over the age of sixty in the area.

The major findings of the study were as follows. The LFPR of older men increased substantially from the mid-1960s to the late 1990s in Korea. The rise in the LFPR of older males in Korea between 1965 and 1995 is largely explained by the dramatic increase in the labor market activity of the rural elderly population. The estimation results showed that the labor force participation rate of the elderly increased in direct proportion to the decrease in family size and the increase in the percentage of males over the age of sixty in the local area. The acceleration of population aging in rural areas due to the selective out-migration of the younger workforce was the major cause of the sharp increase in the LFPR of older males. When younger workers

Fumio Ohtake is a Professor at the Institute of Social and Economic Research, Osaka University.